BUSINESS DIMENSIONS
An International Open Free Access, Peer Reviewed Research Journal
www.business-dimensions.org

ISSN 2348-2737 (Print)
ISSN 2348-2745 (Online)
Abbr: Bus. Dimn.
2014, Vol.1(4): Pg.248-256

Improved Financial Services, Technological Innovation and Enhanced Financial Viability of Banking Sector Economy of India

Sandeep R. Shukla

Assistant Professor,
Bansal Management Group of Institutes, Bhopal. M.P., INDIA.

(Received on: October 7, 2014)

ABSTRACT

Indian Banking sector economy improved its profiteering capacity in the past regime because of technological innovation and improved financial services. Banks are providing universal banking solutions to the clients and are also rendering fund and fee based services as also treasury operations. The net profits and profits before tax for growing banks in India have improved because of improved technology and innovative features of financial services. The banking sector has witnessed its transition in last one decade.

Keywords: Banking Economy, Technological Innovations, Financial viability, ICICI Bank, IDBI Bank, Axis Bank, HDFC Bank,IFCI Development Banks.

INTRODUCTION

Before banking sector reforms i.e. 1991, the financial soundness of banking sector was not that attractive because of lesser developed capital markets and less developed technological inputs. The large numbers of banking operations were handled manually. But with the introduction of prudential norms and BASEL Committee Regulations, banks have introduced innovative banking technology and have improved systems on major focus on overall customer satisfaction of the clients. The balance sheet size of the growing banks has improved substantially and improvement in net profits has also been witnessed for the growing development banks. In the present research paper the net profits and profit before tax of selected Development Banks

have been shown and the financial services offered by them have also been discussed in gist and focus is provided on use of technology in creating innovations because of which customer satisfaction has improved for ICICI, IDBI, HDFC Bank and Axis Bank as well as IFCI Limited.

REVIEW OF THE LITERATURE

For the present research study following literatures have been extensively studied:

01. Billore Soniya- *Cross Cultural Analysis of customer attitude towards banking services -a comparative study of Indian and Japanese customers* - ICFAI journal of Service Marketing, December, 2007. The research paper is devoted to analyze the cross cultural dynamics in Indian and Japanese continents and its effects on the business of banking.
02. Lam Seiw Yong and Jemil Bojel- *Relationship of service quality, satisfaction and trust with customers commitments towards personal banks* - ICFAI Journal of Service Marketing, March, 2007. The research paper is devoted to analyze how far customer satisfaction increases with the service quality in the business of banking.
03. P. Hunumantha Rao -*Financial Services in India The Next Growth Driver* - ICFAI Reader, August, 2008. The research paper throws light on new financial services and their importance to the people of Indian sub-continent.
04 Chandrasekhar Ganesh - *Mergers & Acquisitions- The Indian Banking Scenario* - ICFAI Reader, July, 2008. The research paper throws light on corporate restructuring through mergers and acquisitions in the banking sector economy of the country.
05. P. Hunumantha Rao- *Greater Financial Inclusion a need of Indian economy,* ICFAI Reader, November, 2007. The research paper is devoted to analyze how financial inclusion is important for all round development of Indian economy in the present situation and how the banks are responsible for it.
06. Gangadhar V. And Naresh Reddy G - *Mergers and Acquisitions in the banking sector and empirical analysis.* ICFAI Reader, March, 2007.
The research paper is devoted to analyze the importance of mergers and acquisitions in corporate restructuring of banks.
07. Gunjan M. Sanjeev- *Efficiency of Indian Public Sector Banks -An application of DEA approach* - ICFAI Journal of Applied Finance, Vol-15, No. 11, November, 2009. The research paper analyses the efficiency of public sector banks in today’s context.
08. Sinha Ram Pratap - *Profit Efficiency of Indian Commercial Banks - A Non Parametric Approach.* ICFAI Journal of Applied Finance, Vol-14, No. 7, July, 2008. The research paper analyses how far the commercial banks are efficient to generate profitability.
09. Ravikant - *Islamic Banking and Its Relevance to Indian Banking,* ICFAI Journal of Treasury Management, October, 2008. The research paper analyses relevance of Islamic banking in Indian context.

Hypothesis Testing

Following generalized hypothesis

has been tested carefully by the analysis of secondary data in the present research paper.

01. In the past few years the development banks have made a speedy progress in India in and have provided innovative financial services to the customers.
02. The technological up thrust and innovative financial services have been responsible for improvement of financial viability of the selected development banks.
03 The Indian development banks have shown good financial performance and profitability during past few years.

RESEARCH METHODOLOGY

In the present research paper, data has been collected from the annual reports of selected Development Banks such as ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank and secondary data is utilized for analysis purpose from fiscal year 2001-02 to 2012-13 and it is evident that profitability of major Development Banks have increased in the past regime because of improved technological inputs and improved financial services.

THE TECHNOLOGICAL UPTHRUST IN THE BANKING SECTOR ECONOMY AND GROWTH THROUGH INNOVATION

There has been technological up thrust in the banking sector economy and there has been mammoth growth in the economy of banking sector because of improved and innovative financial services as well as technological upgradation. In the following paragraphs we will be discussing about the innovative technological upgradation of banking sector economy in the past regime.

1. ATM Network

The network of Automatic Teller Machines (ATM) has improved in the past regime for the growing Development Banks such as ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or major private sector and public sector banking enterprises and they have vast connectivity of ATM terminals in rural, semi-urban and urban India. This has resulted in immense customer convenience and customer satisfaction. Major banks have started providing ATM services to all kinds of customers in all the demographic segments of society. And this has been in a position to improve transactional income which has resulted in profiteering capacity of major Development Banks. Few banks have started ATMs which converse in regional languages and have V-Sat connectivity, and RBI has issued directives to start ATMs which will be friendly with blind people also with brailscript.

2. M-Wallet or Phone Banking

Mobile Wallet or Mobile Phone Banking is vogue with growing banks of Indian sub-continent. M-Wallet scheme permits cash transaction of low amount. The mobile transactions are operated through satellites and few tasks can be performed through it such as balance enquiries, transaction enquiries, stop payment instructions, withdrawal of cash and transmission of cash for bill payments etc. The M-Wallet scheme can be availed by the customer who are KYC and AMC compliant

and are observing rules and regulations as well as strictures and norms of the banking sector economy and banking regulation act with sacrosanct. Because of this facility banks are in a position to reduce burden and increase efficiency and they have been in a position to improve profiteering capacity.

3. Banking through use of Internet

Internet banking is highly prevalent in metropolitan cities nowadays. Internet banking is easy mode which can be utilized to pay electricity bills, mobile bills, and phone bills and send money to other parties through electronic mode. In the past, it has been visualized that internet banking has been slightly risky because of unethical hackers, thus bank should provide double password encryption standards to prevent IT crimes and improve customer satisfaction and convenience. Because of use of internet banking, transactional speed has increased which has increased profitability of the banks.

4. Networking of Rural, Semi-Urban and Urban Branches of Banks

To disseminate customer information and create customer convenience, connectivity of different branches is essential. This has improved customer satisfaction and it will improve dissemination of transactional information to the government through connectivity of branches. The money laundering can be prevented and many banks have provided wide area connectivity for better transparency and accountability. Internet connectivity has resulted in connectivity to off-shore branches also. Geographical connectivity of branches has created immense customer convenience and clients can operate bank accounts from different geographical locations. Core banking solutions are blessings for the modern banking operations.

5. Via Satellite connectivity or V-Sat Connectivity

Major growing Development Banks such as ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank have V-Sat connectivity. This helps in operation of ATM Terminals and other electronic transactions such as electronic fund transfer mechanism and RTGS fund transfer or Real Time Gross Settlement. This feature helps in operation of VISA Card in other countries and choosing any currency in suitable denominations while payment of bills and while using plastic cards. Banks charge attractive transactional charges for such services which has improved their profitability in the past.

6. Plastic Cards

Smart Card, Visa Card, Credit Cards, Corporate Cards, Pre-Paid Cards, Business Cards, Commercial Cards, Distribution Cards, FOREX Cards, Travel Cards, Gift Cards, Kids Debit Cards, Platinum Card, World Currency Card are commonly vogue in business of banking. Usage of plastic cards has created complete transformation of our society. Payment and transactional efforts have reduced and different cards mentioned above are used for different purposes and applications.

7. Improved Payment and Settlement Scenario

Robust IT infrastructure and usage of E-commerce and innovation in IT

standards have improved payment and settlement systems and major growing banks are having robust IT infrastructure and a good payment and settlement architecture and because of improved IT structure banks have been in a position to net higher profitability. CTS 2010 or Cheque Truncation System 2010 was introduced in the year 2010 in India but it has been prevalent with other countries since long. The process of truncation is all about taking the electronic image of the cheque and disseminating the information regarding magnetic ink corrector recognition fields, date of presentation, presenter banking identity, thus reducing the effort of physical movement of the cheque for collection purpose to the paying branch which increases speed of operations, reduces chances of being misplaced in transit and it reduces chances of operational risks by eliminating fraudulent practices as well as exorbitant collection costs. Because of CTS 2010 the transactional speed has increased and this has resulted in more profits of the banks.

8. Electronic Clearing Systems (ECS)

If the account holder wants to pay salaries and bills like electricity, telephone, mobiles etc and also internet payment at continuous interval of times then this can be done by electronic clearing system efficiently. This reduces the burden of the paying party as well as beneficiary as the amount of the sum is directly transacted into the bank accounts of the beneficiaries.

9. NRI Banking

Several facilities are provided to Non Resident Indians such as facility of money transfer, NRE account, FCNR Account, NRO Account, Insurance facility, Home loans to NRI, Loans against Fixed Deposits etc. Because of attractive opportunity in this area banks are increasing their profits.

10. Bancassurance

The business of banking has also started insurance segment to improve revenues from operations and few development banks like ICICI Bank, IDBI Bank and HDFC Bank have entered in the Bancassurance segment and are providing insurance services like Home insurance, Health insurance, Accident insurance, Life Insurance, 2-Wheeler insurance, Car insurance, Student medical insurance, Overseas Travel insurance, Travel insurance. Because of increased utility of the bancassurance segments major growing banks have been in a position to improve revenues from operations as well as their profitability.

11. Other Services

Factoring services, Forfaiting services and management of initial public offers, custodial services, treasury operations, arbitraging in developed capital markets, FOREX transactional services, micro finance and establishment of Self Help Groups (SHG), derivative marketing and investments in commodity markets have been responsible for all round growth.

In the following paragraphs we will discuss about Development Banks e.g. IFCI Limited which provides fund and fee based services, while development banks such as ICICI Bank, IDBI Bank, HDFC Bank and Axis Bank or erstwhile UTI Bank which have

been providing universal banking solutions to society. Their improved financial viability in the recent times which has been possible because of improved technological platforms, improved IT infrastructure, improved risk mitigation and control. Improved revenue from operations because of fund based activities and fee based activities, wholesale banking operations, retail banking services, treasury operations, diversified portfolio of investments in commodity markets, capital markets, and stock markets besides investments in real estate and fixed assets. But better profitability can further be achieved through focus on cost control through control on interest expended, establishment and operational expenses, employee expenses etc.

Table No. 1 :
Position of Net Profit For Different Development Banks For Different Time Horizons

₹ (Rs. in Crores)

Years	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	(—)884.70	258.29	424.30	297.04	134.14
2002-03	(—)259.69	1206.17	401.40	387.60	192.18
2003-04	(—)322.97	1637.10	465.00	509.50	278.31
2004-05	(—)443.40	1810.00	307.25	665.56	326.17
2005-06	(—)266.21	2540.00	560.88	870.78	468.78
2006-07	873.71	3110.00	630.30	1141.45	661.94
2007-08	1020.57	4158.00	729.45	1590.18	1086.27
2008-09	657.19	3758.00	858.53	2244.93	1823.56
2009-10	670.94	4025.00	1031.13	2948.70	2518.40
2010-11	706.25	5151.37	1650.31	3926.40	3388.49
2011-12	663.62	6465.25	2031.61	5167.09	4242.20
2012-13	450.87	8325.47	1882.08	6726.28	5179.43

Source: Compiled from data obtained from Annual Reports of selected Development Banks for different years

In the Table No. 1 Net Profit of the selected financial institutions has been shown on comparative basis from 2001-02 to 2012-13 and it can be seen that ICICI Bank has highest net profits and IFCI Limited has lowest net profit during present times. But all the Development Banks have huge profitability which shows that major financial institutions have device meticulous steps to render to continuous profitability they have developed innovative financial services and technology discussed in the preceding paragraphs. Better Net profits have been possible because of better cost management perspectives but a lot can be improved if establishment expenses are controlled, Interest expenses can also be controlled for better interest spread, Credit can be given to credit worthy clients for better results and age, sex, marital status,

and length of service, salary, bonus, increment, stability in service, capacity, condition, wealth of loan seeker should be evaluated to reduce piling Nonperforming assets this will improve profitability to better levels.

Table No. 2 :
Position of Profit Before Tax for Selected Development Banks

₹ (Rupees in Crores)

Years	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	(—)884.70	289.79	414.90	425.38	213.36
2002-03	(—)259.69	780.38	455.61	570.85	301.29
2003-04	(—)267.78	1902.22	461.50	718.96	429.61
2004-05	(—)625.05	2778.40	288.47	978.94	568.66
2005-06	(—)265.93	3098.80	588.34	1253.57	865.05
2006-07	1237.34	3648.00	682.62	1638.75	1102.46
2007-08	1668.59	5056.00	822.70	2280.63	1890.54
2008-09	1010.23	5117.00	985.63	3299.24	2893.07
2009-10	1115.26	5345.00	1044.71	4289.14	3909.62
2010-11	1166.25	6760.70	2280.98	5818.65	5135.65
2011-12	957.74	8803.42	2629.69	7513.16	6287.83
2012-13	664.12	11396.68	2621.77	9750.62	7552.69

Source: Compiled from data obtained from Annual Reports of selected Development Banks for different years.

Table 3
Position of Net Profit to Revenue from Operations for Selected Development Banks

(%) percentages

Year	IFCI Limited	ICICI Bank	IDBI Bank	HDFC Bank	Axis Bank
2001-02	(—)39.34%	9.47%	5.91%	14.58%	8.40%
2002-03	(—)18.05%	9.62%	6.30%	15.52%	10.24%
2003-04	(—)29.14%	13.68%	5.65%	16.82%	13.01%
2004-05	(—)48.32%	15.63%	9.35%	17.77%	14.29%
2005-06	(—)16.17%	13.73%	8.42%	15.55%	13.40%
2006-07	43.91%	10.75%	8.54%	13.58%	11.83%
2007-08	51.99%	10.49%	7.58%	12.82%	12.16%
2008-09	46.86%	9.71%	6.59%	11.44%	13.21%
2009-10	40.49%	12.12%	5.87%	14.75%	16.13%
2010-11	28.40%	15.79%	7.97%	16.18%	17.12%
2011-12	23.28 %	15.75 %	7.97%	15.88 %	15.47 %
2012-13	16.34%	17.19%	6.65%	16.46%	15.35%

Source: Calculated on the basis of financial data obtained from Annual Reports of selected Development Banks for different years.

In Table No. 2 Profit before Tax for the selected Development Banks has been shown on comparative basis from 2001-02 to 2012-13. It is evident that ICICI Bank has highest profit before tax and IFCI Limited has least profit before tax during recent times. IFCI Limited has shown reduction in PBT after 2011-12, but major development banks have shown improvement. Better PBT from the previous times is attributed to prudent management of financial management affairs of the financial institutions. But a lot more can be done by scientific management of profits, Efforts to increase interest spread, better income recognition and asset classification and provisioning of substandard assets.

In Table No. 3 Returns from revenue from operations has been shown which shows that during 2012-13, ICICI Bank has best returns on revenue from operations and IDBI Bank has least returns on revenue from operations. Good returns on revenue from operations have been because of prudent management of financial institutions during present times. Major Development banks have earned revenue by fund and fee based activities, treasury operations, derivative marketing, arbitraging in different capital markets, investment in growth investment opportunities etc

CONCLUSION

Now, major Development banks have sound financial viability and all are facing stiff competition with other counterparts. With the advent of time, Development banks have started providing innovative financial services to the clients, and some are providing universal banking solutions to the clients. Increased financial viability has been possible because of improved technological inputs, improved IT platforms, Scientific risk mitigation and measurement, and innovative financial services.

REFERENCES

1. Annual Report of IFCI Limited from 2001-02 to 2012-13.
2. Annual Report of ICICI Bank from 2001-02 to 2012-13.
3. Annual Report of IDBI Bank from 2001-02 to 2012-13.
4. Annual Report of HDFC Bank from 2001-02 to 2012-13.
5. Annual Report of Axis Bank from 2001-02 to 2012-13.

BOOKS

1. Bhalla V.K., *Management of Financial Services*, Ed. 4th Anmol publishing, New Delhi,.2008.
2. Bose Jayshree-*Bank Mergers-The Indian Scenario*-Ed.1st. ICFAI University Press Hyderabad. 2007.
3. Desai Vasant - *Development Banking: Issues and Options Ed. 1st*–Himalaya Publishing House -. Mumbai.1988.
4. Gupta Shashi K, Agrawal Nisha & Gupta Neeti – *Financial Institutions* & *Markets* 1st ED - Kalyani Publications, New Delhi 2004
5. Gupta Shashi K & Sharma R.K.– *Financial Management* –Ed. 6th. Kalyani Publication New Delhi.2008
6. Horne James C Van– *Financial Management & Policy 12th Ed* – Prentice Hall of India, New Delhi 2003.
7. Kandasami K. P., Natrajan S. and

Parmeshwaran R. –*Banking Law And Practice* Ed.4th.- S. Chand Publication – New Delhi-2009.

8. Pathak Bharati V -*Indian Financial System* –Ed1st. Pearsion Education – New Delhi. 2003.
9. Rao Katuri Nageshwar – *Asset Reconstruction Companies Concept* & *Country Experiences 1st Ed* – ICFAI University Press, Hyderabad 2005.
10. Rao Katuri Nageshwar- *Banking –The New Challenges*- Ed.1st ICFAI University Press Hyderabad-2005
11. Seetapathi K.- *Risk Management In Banks*-Ed1st ICFAI University Press, Hyderabad 2002
12. Sengubolta Latha – *Business Continuity Planning 1st Ed* – ICFAI University Press, Hyderabad 2003.
13. Sharma Meera –*Management Of Financial Institutions With Emphasis On Bank And Risk Management* Ed.1st- Prentice Hall Of India –New Delhi 2008
14. Shekhar K.C & Shekhar Laxmi – *Banking Theory & Practice* Ed. 19th. – Vikas Publishing House- Noida. 2009.